STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

Rossendale Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at the Council for the year ended 31st March 2005 and up to the date of approval of the annual report and accounts.

3. The internal control environment

Internal control is based on a formal framework of rules

- The Constitution, Policy Framework & Budget Procedure Rules, a Scheme of Delegation of Functions/codes of conduct for members and member officer relations and Accountability, Financial & Contract Procedure Rules),

- Budget setting and budgetary management systems which aim to economically, effectively and efficiently use resources and regular report

financial performance to officers and members Financial Regulations and a clear supporting framework of financial procedures.

- A structure of centrally monitored devolved financial management that promotes management of the Council finances at the appropriate organisational level.

- Management control of processes via the provision and use of management information/regular monitoring and reporting of the Council's performance against its plans.

- Administrative procedures (including segregation of duties).

- Business planning processes, setting clear objectives and targets in light of the Councils policy priorities and financial resources.

- Supervision, regular performance monitoring and reviews of the systems and processes through the Internal and External Audit functions and other formal inspection bodies.

- A developing framework, which ensures that risks to the Council's objectives are identified and appropriately managed.

- Well publicised and effective arrangements for dealing with complaints and whistle blowing and for combating fraud and corruption.

- A partnership with Lancashire County Council for the management of the internal audit service that works with officers to assess and develop the control environment and which supports management's assessment of compliance with established policies, procedures, laws and Regulations.

- The overall system is maintained and continuously developed by managers within the Council.

A number of the key elements of internal control are listed below, together with brief details of the documents and processes by which the Council maintains control over these elements.

4. The facilitation of policy and decision making

The Council operates in accordance with the rules laid down in its Constitution. At the present time the majority of decisions (excepting those which are reserved to the full Council or statutory committees) are made by the Cabinet.

Meetings are forward planned, publicised, open to the public and decisions made are published.

The Council also operates a number of Scrutiny Committees for the purpose of reviewing and commenting upon decisions made or the operation of Council policies. Meetings of these Committees are also forward planned, publicised and open to the public.

5. **The performance management of the Council and the reporting of performance management**

The Council's major objectives are set out in a published document – 'Corporate Improvement Plan'. The Plan was published in 2005   and is intended to cover the period up to 2008 with annual refinement/adjustments being made as necessary.

The Corporate Management Team formally monitors these activities on a quarterly basis, ensuring that corrective action is taken when necessary and appropriate. Directors and Heads of Service monitor the achievement of objectives relating to their services on an ongoing basis.

6. **Ensuring compliance with established policies, procedures, laws and regulations**

Service management is headed by Chief Officers/ Heads of Service who are experienced and knowledgeable in their areas of operation. Compliance with policies and procedures is monitored by these officers and by the activities of other review mechanisms such as Internal/External Audit, Best Value and Scrutiny reviews, Performance indicators/monitoring and the work of other external review agencies.

The Head of Legal and Democratic Services, who is also the Council's Monitoring Officer, gives advice on new legislation or when otherwise necessary, and should be consulted about significant legal/policy development issues at the earliest opportunity

7. **Ensuring adequate risk assessment and management**

The Council has approved a formal risk assessment/management policy and strategy, A Corporate Risk Register and individual Service Risk Registers have been determined, and risk assessment/management has been embedded in the annual business planning process.

8. **Ensuring continuous improvement and best value**

The Council has well established processes for carrying out annual programmes of Best Value reviews and Scrutiny reviews which result in formal improvement plans. Progress on these plans is monitored regularly by senior officers and councillors. Activities across the Council are also subject to review by Internal/External Audit and other inspection agencies.

9. **Ensuring proper financial management of the Council and the reporting of financial management issues**

This falls mainly within the statutory responsibilities of the Head of Finance and relies upon having proper arrangements for budget setting and monitoring and compliance with the Council's Financial Procedure Rules which set out the standards by which the Council expects its financial affairs to be operated. A budget preparation timetable is set out and adhered to and formal budget monitoring reports are taken to the Cabinet on a regular basis.

The Internal Audit section continuously reviews and reports on compliance with internal control systems.

External Audit has a responsibility to report on financial management as part of its formal Code of Audit Practice audit.

10. **Review of effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. This review is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

In undertaking the review of internal control in relation to the financial year 2005/6. Reliance has been placed upon the work done during the year by both Internal and External Audit, and we have built on the findings of previous review work from other agencies and the Comprehensive Performance Assessment.

We have concluded that the Council's system of internal control has operated satisfactorily during the year. We have, however, identified a number of continuing control issues and are committed to addressing them promptly.

The Statement on Internal Control will be reported to the relevant Scrutiny Committee for comment, and to the Cabinet. The approved Statement is to be published together with the financial statements for the year.

11.   Significant internal control issues

The following have been identified as significant internal control issues which are in the process of being addressed or still need to be. Brief details of actions proposed are also given.

To enable more effective management of business risks the Council needs to:

- Review Executive and other Committees terms of reference to clearly specify risk and governance remits and to support this with more RM member awareness training.

- Formalise RM arrangements in place for all the Council's significant partnerships.

- Take steps to ensure that the Lead Member for FM and RM has received appropriate training risk management.

- Ensure the member committee with responsibility for risk management receives reports at least quarterly and takes appropriate action to ensure that corporate business risks are being actively managed, including reporting to full council at least annually.

- Continue to embed RM into business planning arrangements through policy making/review procedures and performance management covalent system.

- Ensure the Council explicitly considers positive risks (opportunities) as well as negative risks (threats).

To improve internal control arrangements the Council needs to:
- Produce terms of reference for the audit & performance O&S committee which demonstrate that the core functions of an audit committee have been identified and are being undertaken.

- Provide an internal audit function that consistently operates in accordance with the CIPFA code of practice for internal audit in local government.

- Identify business-critical systems and ensure there are procedure notes/ manuals are in place for each.

To promote more proactive conduct of business the Council needs to:

- Distribute the Whistle-blowing policy to 3rd parties and post it on the Council's website.

- Adopt a counter fraud strategy and introduce arrangements to receive and investigate allegations of breaches of proper standards of financial conduct and fraud and corruption.

- Develop a strong counter fraud culture which is supported and promoted by members and senior officers.

Financial reporting

Introduce a robust QA of the accounts prior to audit to ensure changes to the SORP and other related guidance has been incorporated

Consult with stakeholders on summary accounts and the publish a format in response to that consultation as part of the CIP. The summary to include an explanation of key financial information and technical terms which is understandable to the public and available in a wide variety of formats.

Financial Reporting

Specific issues required to ensure progress include:

- cash-flow forecasts on a regular basis throughout the year.

- MTFS needs robust links to other internal strategies/plans.

- Corporate plan needs to consider 3 year projection of external drivers, including funding variations and requirements to improve efficiency, capital investment plans and their revenue implications with sensitivity analysis.

- Communication of MFTS to all staff stakeholders and partners.

- Budget links to MTFS and not incrementally based.

- The medium-term financial strategy models balance sheets and cash-flows over a minimum of 3 years.

- The Council continues to monitor and demonstrate how its financial plans and strategies have contributed to the achievement of its corporate objectives.

To ensure fully embedded financial management into the wider management arrangements the workshop action plans need to be implemented.

Specific issues required to ensure progress include:

- Review financial performance of the Councils partners.

- Deliver regular financial management training for members and non-financial officers.

- Produce accurate profiled financial monitoring reports for all budget holders 10 days post month end.

- Link operational activity based cost driver indicators and risk assessments in budget monitoring reports.

Progress in achieving planned savings and efficiency gains needs to be regularly reported to senior management with developed action plans.

Specific issues required to ensure progress include:

- Update the capital strategy in line with changes to corporate priorities.

- Strengthen reporting to members to ensure that they fulfil their responsibility in relation to the Council's land and buildings portfolio at both a strategic and service level.

- The Council's annual programme of planned maintenance needs to be based on a rolling programme of property surveys.

- Assess the level of backlog maintenance and identify actions to reduce this.

- Introduce option appraisals and whole life costing on all investment and disposal decisions.

- Introduce performance measures and benchmarking to evaluate the effectiveness of the Council's asset base against improvement priorities.

Financial Standing

Specific issues required to ensure progress include:

- Use the new budget control systems to consistently manage spending within resources.

- Improve follow up action to collect sundry debtors.

- Make monitoring information available to evaluate the effectiveness of recovery actions, associated costs, and the cost of not recovering all debt areas promptly.

- Consider monitoring the opportunity cost of maintaining its levels of reserves and balances compared to the benefits it accrues.

12 . **Conclusion**

On the basis of the review of this review it is clear that Rossendale Borough Council is developing satisfactory systems of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

The system of internal control will be subject to continuous review to ensure it continues to meet the needs of the Council and to operate effectively. Overall we have the desire and commitment to see the improvements delivered.

Duncan Ruddick – Leader of the Council

Carolyn Williams – Acting Chief Executive

March 2006